HISTORY OF BANK INDONESIA : INSTITUTION
Period from 1997-1999

Contents :

Highlights

In July 1997, Indonesia was hard hit by the monetary and economic crisis which shook the national political life. There was eroding confidence in the Government's capability in coping with the economic conditions, especially ahead of the national election and Presidential election of 1998. Student rallies and public protests from different walks of life intensified demanding Soeharto's accountability over his 32-year rule laded with human right abuses and corruption, collusion and nepotism practices. Eventually, on 21 May 1998, Soeharto stepped down from his presidency and appointed Vice President, BJ Habibie to replace him. The conditions did not immediately improve. Although reform movements in various fields were effected, security problems and national leadership crisis continued. Under this condition, economic recovery was unlikely amid massive capital flight. The crisis sparked enormous liquidity problem for the banking sector and jeopardized the national economy.

During this crisis period, the duties and role of BI remained adhering to Act No. 13 of 1968 regarding the Central Bank and Act No. 7 of 1992 in conjunction with Act No. 10 of 1998 regarding the amendment of Act No. 7 of 1992. Pursuant to Act No. 10 of 1998, BI's authority to granting licenses for banks was expanded. Under a crisis condition, the government policies to overcome the impacts of the Asian crisis of 1997 added some more pressure to BI as it required organizational adjustment and working pattern of BI.

To monitor the crisis development, BI had to act carefully and swiftly. Consequently, monitoring was not only carried out in the Board of Directors' meting forum as it was commonly done in normal times. As extra attempt, Meeting of Board of Directors' Morning Call (07:00-09:00) and Evening Call (MEC) (17:00-19:00). MEC began in July 1997 and aimed to monitor and tackle the crisis, coordinate macro and micro policies and prepare the reports of the crisis to the Government and the House of Representatives. Further, BI set up a Steering Committee (SC) of the Board of Directors which in 1997, its working scope was expanded into controlling the payment system. Prior to this, the power of this committee, which was set up in 1988, was limited to monetary control in respect to Open Market Operation (OPT), and in 1993 the committee was expanded to the banking sector. The outcome of the Steering Committee was discussed in the Monetary Meeting.

The crisis period proved as arduous test for BI. The endless efforts of BI to rehabilitate the crisis were often misunderstood and unacceptable by many circles domestically. In its policies to restructure the banking sector, BI was harshly criticized by those who felt that they became the victim of the policies, which were not made by BI alone. BI then was frequently subject to legal sues from those unhappy with BI's moves, particularly the closure of 16 banks on 1 November 1997. Whereas, this policy was one of the endeavors of the Government and IMF to make the banking system sound. Moreover, in correspond to the BLBI (Bank Indonesia Liquidity Assistance), President honorably discharged several members of the BI's Board of Directors and some of them were even prosecuted by the court. As climax, the Governor of BI, Soedradjad Djiwandono along with several members of the

Board of Directors were terminated in April 1998. The reason behind the termination was the President's displeasure over the closure of the banks on 1 November 1997 and the unsuccessful moves by the BI's Board of Directors to address the crisis.

As regards the crisis handling, BI was also involved in the Board of Economic and Finance Sustenance and Stabilization (DPKEK). The Governor of BI was a member of the Board, and from this time the Monetary Board lost its role as the economic polices were directly controlled by the President. Likewise, when the President set up the Indonesian Banking Restructuring Agency (BPPN), namely an agency under the Minister of Finance with the duty to restructure unsound banks and make the payments in line with the Government's blanket program. At first, this agency was run by the management and staff from Bank Indonesia. Later on, in its further development, IBRA did not involve BI's staff any longer.